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Report of the Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East*

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Summary

The present report of the Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East describes the activities of the Group during 2002 and provides a detailed outline of the current financial situation of the Agency. The Working Group unanimously adopted the report at its 126th meeting, on 10 October 2002. As in previous reports of the Group, the present report closes with a number of concluding remarks addressed to all Member States.

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* In accordance with paragraph 1, section C, of General Assembly resolution 54/248, this report is being submitted on 10 October 2002 following its adoption by the members of the Working Group on the Financing of UNRWA.

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I. Introduction

Origin and background of the Working Group

1. The Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) was established by the General Assembly under resolution 2656 (XXV) of 7 December 1970 to study all aspects of the financing of the Agency. In that resolution, the General Assembly requested the Working Group to assist the Secretary-General and the Commissioner-General of UNRWA in reaching solutions to the problems posed by the Agency's financial crisis.

2. At the twenty-fifth session and all those that followed, the General Assembly considered the reports submitted to it by the Working Group[1] (most recently, A/56/430) and adopted resolutions commending the efforts of the Working Group and requesting it to continue them for a further year (most recently, resolution 56/53).[2]

3. The Working Group consists of the representatives of France, Ghana, Japan, Lebanon, Norway, Trinidad and Tobago, Turkey, the United Kingdom of Great Britain and Northern Ireland and the United States of America. The Chairman of the Working Group is Mehmet U. Pamir (Turkey).

II. Activities of the Working Group during 2002

4. Throughout the year, the members of the Working Group have followed with concern the difficulties experienced by the Agency and, in particular, the serious financial situation it continued to face. The Working Group held two meetings, on 27 September and 10 October 2002, to consider the recent developments in the Agency's financial situation and to prepare its report to the General Assembly. The Working Group adopted its report at its meeting on 10 October 2002.

5. At an informal meeting, on 27 September 2002, the Working Group was briefed by the Chief of the New York liaison office of UNRWA, who submitted an up-to-date report on the financial situation of the Agency. The Working Group gave further consideration to that report at its 126th meeting, on 10 October 2002 (see sect. III below).

III. Financial situation of the Agency

6. UNRWA faced a critical financial outlook for 2001 at the beginning of the year, which was subsequently alleviated by increased donor contributions as well as cost-constraining measures that enabled it to end the year with a positive working capital for the first time in 10 years. In 2001, UNRWA had an income of $302.9 million, of which $280.8 million ($256 million in 2000) was for the cash portion of the regular budget and $22.1 million for the in-kind portion ($14.9 million in 2000). Those funds were received against a regular budget of $310.4 million, of which $289.7 million represented the cash portion and $20.7 million the in-kind portion, leaving a deficit of $8.9 million in the funding of the General Assembly-approved

cash budget ($289.7 million minus $280.8 million). Furthermore, the projects budget for 2001 was underfunded by $36.8 million.

7. In cash terms, the Agency ended the year 2001 with no cash for its General Fund. The $46.3 million in cash appearing in the Agency's financial statement for the year ended 31 December 2001 was in respect of earmarked contributions for non-regular budget activities, namely projects and the emergency appeals. The Agency's working capital, which was fully depleted in 1999 and stood at negative $4.9 million at the end of 2000, had been built up to $8.5 million by the end of 2001. This level of working capital reserves fell far short of the minimum level of $28 million, representing average monthly expenditure, of which $17 million is for the Agency's payroll for the 23,000 members of its area staff.

8. Repeated funding shortfalls in recent years have severely eroded the cash position of UNRWA, as measured by the amount of cash on hand to meet obligations. Nevertheless, there were still at the end of 2001 outstanding and unpaid pledges amounting to $23.4 million pertaining to the regular budget. Further strain was exerted on the cash position of UNRWA by the non-reimbursement of amounts owed to the Agency, namely $23.0 million paid by UNRWA for the value-added tax (VAT) and due for reimbursement by the Palestinian Authority. The total amount of port charges due to the Agency is $7.5 million. The Agency's position is that the obligation to pay port and related charges remains with Israel pursuant to the terms of the 1967 Comay-Michelmore Agreement. A deficit of $5.1 million in the account set up to fund the costs of transferring UNRWA headquarters from Vienna to Gaza and Amman remains. The move was completed in 1996, but the budget for it remained underfunded and costs had to be met on a temporary basis from other accounts.

9. By the end of September 2002, based on confirmed pledges and other incomes, the Agency faced the prospect of a funding gap in its 2002 regular cash budget of $16.7 million. Income for 2002 is expected to be $279.3 million (of which $271.3 million is contribution income, $2 million interest income and $6 million exchange rate gains), against a revised cash expenditure of $296.0 million. At the informal meeting of the Agency's major donors and authorities hosting the refugees, held in Amman on 24 and 25 September 2002, UNRWA reiterated the hope that the 2002 budget would be fully funded, affording a further allocation towards rebuilding the Agency's working capital and allowing a modest salary increase for the Agency's 23,000 area staff needed to reduce the continuing deterioration in competitiveness of UNRWA as an employer in its five fields of operations. Furthermore, of the $271.3 million of contribution income expected for the regular budget in 2002, only $189.8 million had been received by the end of September 2002 and $81.5 million was still outstanding.

10. In recent years, the Agency's major donors have responded repeatedly and generously to the special appeals made by the Secretary-General and the Commissioner-General for the funding of the regular and project budgets of UNRWA. Once again, in 2001 and 2002, the Commissioner-General and his colleagues have made strenuous efforts to keep donors informed, through the sharing of quarterly financial reports, periodic progress reports in respect of emergency operations and the holding of regular consultations with donors and the host authorities. At the same time, the Agency has continued to try to attract a reliable, sustainable flow of funds so that stopgap measures were not depended upon

to meet ongoing and growing funding needs. In that context, UNRWA had appealed to donors to make payments of pledged contributions earlier in the calendar or budget years, and to ensure the payment of pledges on time.

11. While the Working Group welcomed donor support for the Agency's emergency appeals for humanitarian assistance in the Occupied Palestinian Territory following the outbreak of strife in September 2000, it remained concerned about the increasing shortfalls in funding for its 2001-2002 appeals. Against a total request of $116.3 million for emergency appeals during 2001, the Agency received $87.5 million in pledges. Some $10 million of the total amount pledged remains outstanding. Against a total request of $172.9 million for Emergency Appeals during 2002,[3] the Agency has received $87.5 million in pledges. Some $40.6 million of the total amount pledged remains outstanding. The Working Group encouraged donors to increase their contributions to the Agency's 2002 appeals and to pay outstanding contributions for both the 2001 and 2002 appeals. The shortfalls in emergency appeal contributions have seriously affected the Agency's ability to order the various food commodities needed, thus delaying several of the planned emergency food distributions in the West Bank and the Gaza Strip. The Agency's strained cash flow situation and the absence of sufficient working capital or reserves have prevented it from advancing other funds towards meeting those requirements pending the receipt of donor contributions to fund those activities.

12. The Agency's budget requirements for the biennium 2002-2003, estimated at $791.7 million, were approved by the General Assembly at its fifty-sixth session. Of the $791.7 million biennial allocation, $386.3 million is allocated for 2002. Of this amount, $308.8 is for the cash element of the regular budget, around $22 million for the in-kind element of the regular budget and $55.5 million for projects. The budgetary requirement for 2003 is $405.4 million, of which $321.1 million is for the cash portion of the regular budget, $22.9 million for the in-kind part and $61.4 million for projects. The budget for the biennium 2002-2003 reflected the bare minimum funding requirements needed to sustain essential services at the current level and to meet the additional funding requirements that resulted from the integration of new educational programmes in the school curricula of the host authorities.

IV. Concluding remarks

13. **The Working Group is once again deeply concerned about the financial prospects for UNRWA, in particular, after repeated funding shortfalls have affected the ability of the Agency to continue the level and quality of the services provided by the Agency to 4 million Palestine refugees. The Group emphasizes that it is the responsibility of the international community to ensure the maintenance of UNRWA services of acceptable quality, and to ensure that service levels keep pace with the steady natural growth of the refugee population.**

14. **The Working Group appreciates that UNRWA has made significant progress towards reducing the impact of the structural deficit problem that plagued the Agency in previous years, through such measures as the introduction of the 1999 Area Staff Rules, which have lowered the Agency's staff costs, and reductions in international staffing funded by the Agency's**

General Fund. The Group commends the Commissioner-General and all UNRWA staff for their tireless efforts to maintain the basic operations of the Agency, despite the constraints on the availability of resources that they have faced. It commends the Commissioner-General also for his fund-raising efforts and for his commitment to keeping the major donors and host authorities informed and involved, opening new avenues of support and funding and seeking a broader base of donors. The Group also noted with satisfaction that the General Assembly approved the establishment of five additional posts requested in the 2002-2003 budget.

15. In order to address all aspects of the Agency's financial woes, the Working Group calls for the early and complete fulfilment of pledges and other commitments to UNRWA, in particular the reimbursement of value-added tax and port charges by the Palestinian Authority and the Israeli Government and the payment of funds for the move of UNRWA headquarters to the area of operations. On the issue of value-added tax, the Working Group noted with appreciation that the Palestinian Authority had introduced a zero rating system for VAT in the Gaza Strip and was considering its extension to the West Bank. The Group was, however, concerned over the refusal of the concerned authorities in Israel to pay at the request of the Palestinian Authority $15 million of its funds held by Israel directly to UNRWA to settle a major part of the VAT owed to the Agency by the Palestinian Authority.

16. With reference to the move of UNRWA headquarters from Vienna to Gaza and Amman, the Working Group took note of the Commissioner-General's efforts following the Working Group's 2001 report towards settling this account in line with the view of the Agency's Advisory Commission expressed in the 25 September 2001 letter from the Chairman of the Commission to the Commissioner-General that the "amount in question should be paid to the Agency by the United Nations as soon as possible". The Working Group reiterates the view expressed in its 2001 report, namely that the $5.1 million outstanding with respect to expenses incurred by the Agency on the move of its headquarters to Gaza should be paid to the Agency by the United Nations as soon as possible.

17. The Working Group expresses alarm at the continuing negative effect successive austerity measures adopted in previous years have had on the Agency's humanitarian operations. The Group noted with concern that the Agency's expenditure per refugee dropped from an average $200 per year per refugee in the 1970s to less than $70 per year per refugee in the 1990s. Past austerity measures and continuing funding shortfalls have affected the ability of programmes to expand at a rate commensurate with the growth in the refugee population, and in some cases have necessitated curtailments of ongoing programme activities. Most seriously, these measures have led to double-shifting and increased class sizes in Agency schools, rising patient/staff ratios in the health services and higher caseloads for social workers dealing with the poorest refugees.

18. The Working Group is also concerned that the continued freeze on former regular budget allocations such as university scholarships and rehabilitation of shelters have not only reduced the Agency's activities in those areas, but also made them dependent on extrabudgetary contributions. Similarly, cuts on

allocations for maintenance of facilities have led to the deterioration of the Agency's extensive physical assets. The Group is gravely concerned at the impact of these measures on the lives of the Palestine refugees. The Group fears that budget cuts could cause severe social and economic hardship to an already suffering refugee population, and therefore place an increased burden on the authorities hosting the refugees. The Group continues to believe that UNRWA plays a vital role in preserving the stability and security of the region, and that adequate funding of the Agency's programmes is essential to ensuring this stability.

19. In order to enable UNRWA to fully implement emergency assistance to Palestine refugees in the West Bank and Gaza envisaged under the Agency's emergency appeals, the Working Group urges the international community to do its utmost to meet the target of $172.9 million for the 2002 appeals as soon as possible.

20. The Working Group agrees that the problem of the refugees is deeply rooted in a political issue which originated more than half a century ago, and that it remains essential to settle this problem once and for all in accordance with all relevant United Nations resolutions. The problems faced by the refugees today are, however, humanitarian ones that must be addressed as a shared international responsibility. The services provided by UNRWA must be viewed as the minimum required to enable the refugees to lead productive lives. Any further reduction in those services would not only unfairly deprive the refugees of the minimum level of support to which they are entitled, but could also have a destabilizing effect on the entire region. Above all, the Group expresses the hope that the international support for UNRWA embodied in the resolutions adopted each year by the General Assembly, in which the Assembly recognizes the importance of the work of the Agency and requests that Governments contribute to it, should be translated into measures to ensure the survival of the Agency on a secure financial basis.

21. The Working Group therefore strongly urges all Governments to bear in mind the foregoing considerations when deciding upon the level of their contributions to UNRWA for 2003, and once again:

(a) Urges Governments that have not yet contributed to UNRWA to start to do so;

(b) Urges Governments that have so far made only relatively small contributions to increase their contributions;

(c) Urges Governments that in the past have made generous contributions to UNRWA to continue to do so in a timely manner and to strive to increase them;

(d) Urges Governments that traditionally have shown special interest in the welfare of the Palestine refugees, both in the region and beyond, to begin contributing or to increase their contributions;

(e) Urges Governments to consider making special contributions sufficient to cover the deficit and build up working capital, so that UNRWA services can continue uninterrupted and the Agency can restore services cut as a result of the austerity measures, and to ensure that donor support of

emergency-related and special programmes or capital projects does not in any way decrease or divert contributions to the Agency's regular programmes.

Notes

[1] For the consideration of the most recent report of the Working Group (A/56/430), see A/56/549.

[2] The most recent resolution is General Assembly resolution 56/53.

[3] This includes a year-long $117.2 million appeal and a $55.7 million supplementary appeal necessitated by the major deterioration in humanitarian conditions resulting from the reoccupation by Israeli forces of Palestinian population centres in the West Bank and military operations in the Gaza Strip.